“To get unemployment rates like the ones that we're about to see [...] you have to really go back to the Great Depression.” The unemployment rate, which is the people who are actively looking for a job but are unable to find one as a percentage of the total labor force, is rising rapidly in the US and is predicted to reach “above 20%” as the Covid-19 pandemic threatens to affect every aspect of the global economy. Macroeconomic theory, the study of the large scale economic behavior, suggests that unemployment must be low yet not zero. In order to solve said issue, government policies are necessary.

**Figure 1.** Economy in the United States in 2020

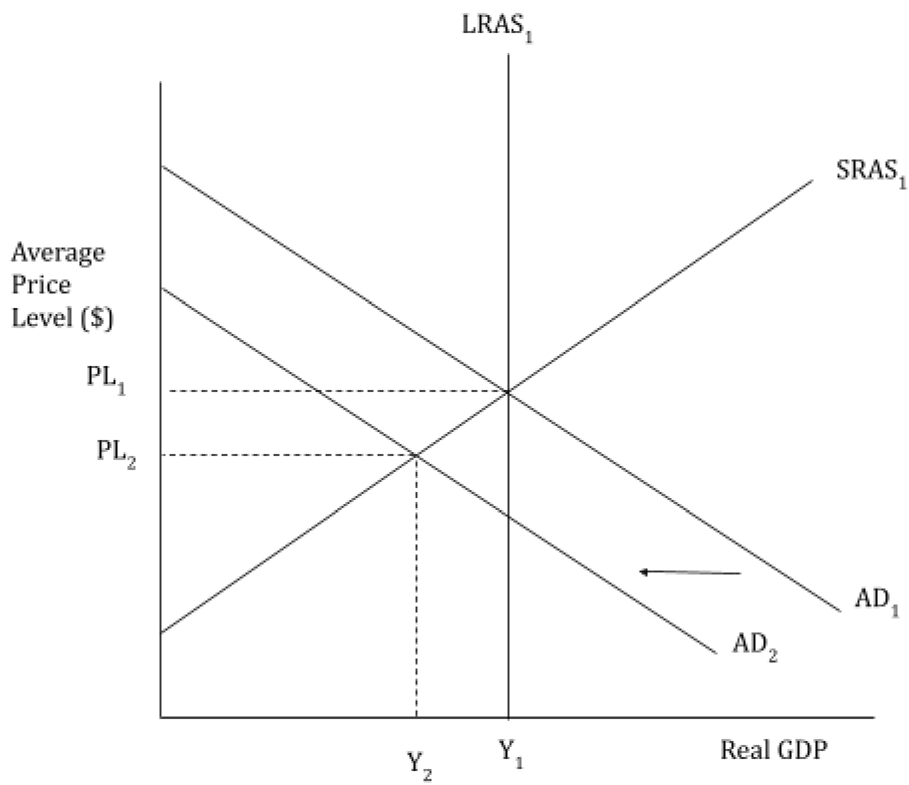


Figure 1 depicts the aggregate demand (AD), total demand in an economy at a particular time, and both short and long run aggregate supply (SRAS and LRAS respectively), total supply of services and goods in an economy. Originally $AD_1$ intercepts with $SRAS_1$ at $Y_1$, which is also where $LRAS_1$ lies, meaning the economy would be operating at maximum output, the most production that the economy could support. However, $AD_2$ is

shifted inwards creating a new equilibrium at $Y_2PL_2$. This means that both GDP and Average Price Level are lower than what the maximum output could be. This is all due to the unemployment that arises as a consequence of the pandemic and the decrease in aggregate demand this entails.

**Figure 2.** Economy in the United States in 2020 after Coronavirus lockdown

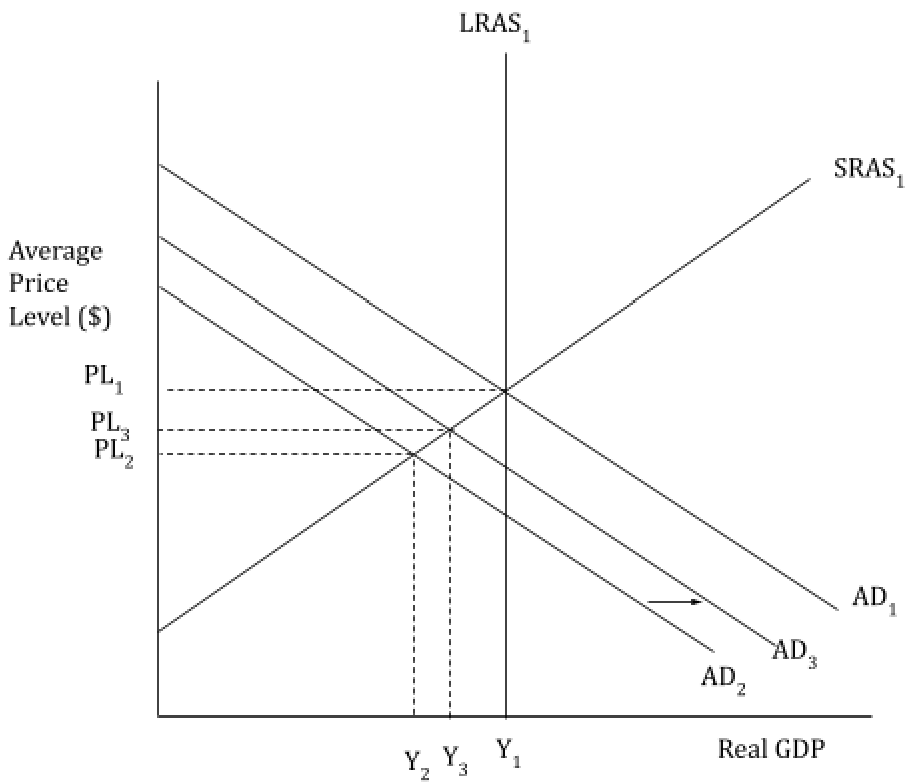


Figure 2 shows the predicted results of the policies the United States' government will make to apalliate the consequences of the Covid-19 pandemic. In order to do so, it is necessary for aggregate demand to shift outwards to a point between $AD_1$ and $AD_3$, so that deflationary pressure decreases. The US government is looking to "have a better third quarter. [and even] better fourth quarter," however it is impossible for any of the government measures to shift AD back to its starting value. This is due to the fact that as previously stated, $AD_1$ is the maximum output possible for the economy, and considering how consumption went down, even if the government takes action to increase AD, it cannot

go back to the maximum point. Not only that, but PL increases from $PL_2$ to $P_3$, where a new equilibrium is established. Again, because AD approaches, yet does not reach $AD_1$, the PL will stay below $PL_1$ as well. In the end, government measures take the macroeconomic equilibrium, from a point below the $LRAS_1$, the maximum possible output, to one closer to the starting point, meaning that unemployment will get closer to a non-zero low unemployment point.

The government must use monetary or fiscal policies in order to increase Aggregate Demand. On one hand, expansionary policies, monetary or fiscal, will lead to a great expense for the government. For expansionary fiscal policies, this means a budget deficit, meaning they spend more money than they are receiving from other sources, leading to external debt. Not only that, but fiscal policies do not necessarily mean aggregate demand will increase, even if it is promoted, because in the end the responsibility still falls on the consumers. This is simply because they could prefer to save up the surplus they are greeting from reduced taxes or different benefits the government may establish. Another issue with fiscal policies for unemployment, is that they take a long time to take effect in the economy, and they may be harmful because in that time the economy may recover and unemployment has already settled back to a low point.

On the other hand, a mix of monetary and fiscal policies would be extremely helpful for the economy due to various factors. Tax cuts mean that the population has a larger net income which generally translates to expenditure, thus promoting the economy and increasing aggregate demand. Also, direct expenditure by the government as Government is one of the components of GDP. This therefore promotes spendings by individuals and firms, so the investment that the government makes is essentially multiplied by increasing consumer trust. On top of that "eighty percent of [the unemployment numbers] was furloughs and temporary layoffs," meaning that when the covid lockdowns are over, a percentage of these workers should become employed again. In essence, despite how dire the situation looks for the US, the unemployment numbers may look worse than the situation really is. In the end, expansionary government policies may have several negative

effects, but the larger impact on the long-run of an economy means that the United States is right in applying these measures of large expenditure.

(Word Count: 746)